NORTH AMERICAN BANKING COMPANY

November 14, 2024

Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
comments@fdic.gov

Attention: Comments—RIN 3064-ZA42

Dear Mr. Sheesley:

The undersigned represent members of the executive management team at North American Banking Company, a Minnesota state-chartered bank as well a member of the Federal Reserve Bank of Minneapolis, located in Roseville, MN. The Bank was established in 1998 as a de novo institution, and we currently maintain assets of approximately $1.3 Billion.

We would like to thank you and the Board for allowing us the opportunity to provide information to the FDIC in response to the Request For Information (dated August 6, 2024) soliciting comments on deposit data not currently reported in the FFEIC Call Report or other regulatory reports, including for uninsured deposits, as well as on possible changes to the deposit insurance coverages for certain types of deposits.

Collectively, the undersigned have served as managers and auditors of insured financial institutions for more than 125 years. It has been our experience that each type of deposit segment behaves differently, particularly during periods of economic or financial uncertainty.

We have separated our comments into two sections for your consideration.

FFIEC Call Report Data Expansion

Inadequacies in capturing key stability and franchise value characteristics of differing deposit types in the Call Report has led to incomplete, if not inaccurate, descriptions of the causation of recent (2023) bank failures. The failure of the three banks in question was largely the fault of management for not heeding previous warnings of regulators. In addition, the failed banks in question did not establish adequate contingency funding and related collateral planning. The failed banks did not have proper contingency liquidity management tools in place. Further, management of these banks did not allow for the increased velocity of information-sharing present in today's internet-savvy marketplace. The reasons for these failures were well documented in the FRB report dated April, 2023.[1]

[1] Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank, April 2023

In an effort to address many of the questions posed in the RFI, we provided two alternative examples of a proposed schedule to be included in future Call Report submissions by banks. The first attachment is the "Deposit Stability Analysis, the second is the Uninsured Deposit Stability Analysis. Both reports were created using our September 30, 2024 Call Report Data. Either one of these schedules would help offer deeper, more accurate insight to Call Report users who seek to obtain deposit characteristic information similar to what trained examiners obtain from banks while conducting their safety & soundness examinations.

The schedules introduce the concept of a "Stability Index" by assigning a "stability rating" to cohorts of the uninsured deposit base of the reporting bank based upon the longevity of the depositors' accounts held with the bank. The illustrative percentages of the "stability ratings" calculated by the two examples could be modified, as could the illustrative cohort ranges used to apply the "stability ratings" in calculating the reporting bank's overall "Deposit Stability Index" or "Uninsured Deposit Stability Index." The resulting determinations are quantified in manners similar to those used in quantifying determinations of risk-weighted assets and of risk-weighted capital ratios reported in Call Report schedule RC-R.

The proposed new Call Report schedules would not require significant additional work for reporting banks as it uses several data points already provided in current Call Report disclosures. Further, it would provide users data on the stability of the funding provided to a reporting bank by its deposit base, without having to perform and report cumbersome deposit decay analyses to assess a bank's deposit stability and interest rate sensitivity.

The proposed new Call Report schedule provides useful information without disclosing confidential data about a bank's deposit customer base. Confidential deposit customer information is readily available to safety & soundness examiners at a granular level, just as it is for loan customer information in support of Call Report schedules RC-C, RC-N and RC-R which currently assist Call Report users in assessing a bank's asset quality and capital adequacy.

The proposed new Call Report schedule does not separately delineate affiliate and shareholder deposits. While the FDIC Examination Handbook states: "A large deposit account might be considered stable if the customer has ownership in the institution, has maintained a long-term relationship, has numerous accounts, or uses multiple services."[2] We believe the assessment of the stability of affiliate and shareholder deposits is more effectively determined in the context of a safety & soundness examination. Therefore, they are not separately delineated in the proposed new Call Report schedule although the inclusion of that data would make a stronger index.

It should be noted that our Bank is a relatively large payment processor[3]. As a large processor, our customers are required to maintain large deposit balances with us, in order to support the processing services our Bank provides their operations. The fact that the balances are contractual enhances the stability of those deposits. The contractual nature of those deposit relationships provides our Bank with a higher degree of stability than other large uninsured deposits without such contractual features. We believe that current regulatory reporting Call Report fields, pertaining to uninsured deposits, do not provide for the recognition of this important characteristic of our uninsured deposit base. Our proposed new Call Report Schedule provides a mechanism for capturing this important stability characteristic of uninsured deposits held at commercial banks that provide services to many depositors accessing the U.S. payments systems.

Furthermore, due to their nature as contractual, operational, transaction accounts, these deposits are generally not sensitive to changes in interest rates. This is another important characteristic of these types of uninsured deposits that does not get adequately reflected in the data currently being captured and reported in regulatory submissions.

Currently, the evaluation of the stability of a bank's deposit base, for liquidity and interest rate sensitivity purposes, relies upon the experience of seasoned safety and soundness examiners in the field to obtain sufficient knowledge

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[2] *Available at:* https://www.fdic.gov/resources/supervision-and-examinations/examination-policies-manual/section6-1.pdf

[3] North American Banking Company was a top 30 ACH originator in 2023 according to NACHA.

of the characteristics of that deposit base, in order to reach appropriate conclusions. Our proposed new Call Report schedule provides a standardized mechanism by which additional deposit stability characteristics are captured. In doing so, it supports enhanced off-site deposit monitoring efforts transparently and ensures deposit stability characteristics are fairly communicated across the entire banking system.

FDIC Insurance Reform

The current FDIC insurance assessment is calculated by using the "Initial Base Assessment Rate (IBAR)" multiplied by the value of "Average Consolidated Total Assets" less "Average Tangible Equity." The IBAR is based on the CAMELS ratings components from the most recent safety and soundness examination of a bank. Both the Liquidity and Sensitivity components of an examination reflect the use of alternative funding methods such as Brokered Deposits, Reciprocal Deposits, Federal Home Loan Bank Advances, Federal Reserve Discount Window Advances and other funding methods that a bank might incorporate into its funding. The methodology above does adequately capture the amount of an assessment a bank should pay to the FDIC Insurance Fund.

Our concern is that increased stratification of insurance premiums will have a ripple effect in the industry. The ripple effect will ultimately lead to deposit insurance costs being passed on directly to all depositors as a line and disclosure item in service charge schedules for transaction accounts. The insurance premium also would possibly become a number used in APY calculations.

We would recommend no change to the current assessment calculation.

Lastly, if the FDIC wants to evaluate different insurance coverage premiums it should also take a look at the amount of coverage an account receives. The $250,000 coverage first set in 2008 should be more than $365,000 in today's dollars.

Thank you for the opportunity to offer some of our thoughts in response to your request for information. If you have questions regarding this submission, please email Michael A. Bilski directly at [redacted]

Sincerely,

[redacted]

Michael A. Bilski
Chief Executive Officer

[redacted]

Bradley G. Huckle
President

[redacted]

Joseph E. Polaczyk
Chief Administrative Officer

[redacted]

Katherine Stockman
Chief Financial Officer

Deposit Stability Analysis

RC E-SA

Total Deposits	RC 13a	$	1,057,700,403.96	1
Less Deposits < $250,000	RC-O M.1.a.1	$	125,135,112.31	2
Less insured portion over $250,000	$250,000*f050	$	93,000,000.00	3
Less Brokered Deposits	RC-E M.1.b	$	7,000,253.00	4
Less Public Funds requiring Pledging	RC-E M.1.e	$	-	5
Uninsured Deposits		$	832,565,038.65	6
			Line 1 minus 2 through 5	

Stability Index Calculation of Deposits

Age of Deposit Accounts > $250,000	Stability Rating	Aggregate Deposits greater than $250,000	100% Stable Contractual Payments Processing Accounts	100% Stable Contractual FBO Accounts	Stable Deposits	
20 plus years	95.00%	$ 45,675,850.70	$ 5,051,095.38	$ -	$ 43,644,612.93	7.a
15 to 20 Years	90.00%	$ 414,044,922.77	$ 8,413,550.35	$ -	$ 373,481,785.53	7.b
10 to 15 years	75.00%	$ 63,424,766.79	$ -	$ -	$ 47,568,575.09	7.c
5 to 10 years	50.00%	$ 259,977,287.79	$ 211,018,707.11	$ -	$ 235,497,997.45	7.d
2 to 5 years	15.00%	$ 110,150,457.73	$ 38,880,731.20	$ -	$ 49,571,190.18	7.e
less than 2 years	5.00%	$ 25,823,915.01	$ 17,569,355.51	$ 6,105,517.58	$ 23,782,325.19	7.f
less than 1 years	2.50%	$ 13,468,090.86	$ 9,540,493.17	$ -	$ 9,638,683.11	7.g
		$ 932,565,291.65	$ 290,473,932.72	$ 6,105,517.58	$ 783,185,169.48	7
		Equals Line 1- Line 2				

Stable Deposits	**$**	**915,320,534.79**	8
		Line 7 + 2 through 5	
Deposit Stability Index		**86.54%**	
		Line 8/Line 1	

Uninsured Deposit Stability Analysis **RC E-SA**

Total Deposits	RC 13a	$	1,057,700,403.96	1
Less Deposits < $250,000	RC-O M.1.a.1	$	125,135,112.31	2
Less insured portion over $250,000	$250,000*f050	$	93,000,000.00	3
Less Brokered Deposits	RC-E M.1.b	$	7,000,253.00	4
Less Public Funds requiring Pledging	RC-E M.1.e	$	-	5
Uninsured Deposits		$	832,565,038.65	6
			Line 1 minus 2 through 5	

Stability Index Calculation of Uninsured Deposits

Age of Deposit Accounts > $250,000	Stability Rating	Aggregate Deposits greater than $250,000	100% Stable Contractual Payments Processing Accounts	100% Stable Contractual FBO Accounts	Stable Uninsured Deposits	
20 plus years	95.00%	$ 29,175,850.70	$ 5,051,095.38	$ -	$ 27,969,612.93	7.a
15 to 20 Years	90.00%	$ 403,044,922.77	$ 8,413,550.35	$ -	$ 363,581,785.53	7.b
10 to 15 years	75.00%	$ 48,924,766.79	$ -	$ -	$ 36,693,575.09	7.c
5 to 10 years	50.00%	$ 230,477,034.79	$ 211,018,707.11	$ -	$ 220,747,870.95	7.d
2 to 5 years	15.00%	$ 87,900,457.73	$ 38,880,731.20	$ -	$ 46,233,690.18	7.e
less than 2 years	5.00%	$ 21,823,915.01	$ 17,569,355.51	$ 6,105,517.58	$ 23,582,325.19	7.f
less than 1 years	2.50%	$ 11,218,090.86	$ 9,540,493.17	$ -	$ 9,582,433.11	7.g
		$ 832,565,038.65	$ 290,473,932.72		$ 728,391,292.98	7

Uninsured Deposit Stability Index **87.49%** 8

Line 8/Line 6